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C O N F I D E N T I A L SECTION 01 OF 03 OTTAWA 001681

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SUBJECT: LIBERALS AND CONSERVATIVES REGROUP, WAIT FOR THE NEXT ROUND

Classified By: POLMINCOUNS Brian Flora, reasons 1.4 (b) (d)

1. (C) Summary: It appears that the most likely scenario now is an early spring election following the end of year release of the Gomery report. Both sides have settled in for what amounts to a 10-month campaign, with the Liberals appearing much better organized and focused. The Conservatives continue to struggle to develop a theme that will resonate nationwide, and are hampered by the limitations of their leader. End Summary

So Un-Canadian

2. (C) According to David Zussman, CEO of EKOS Research Associates, the past few months have been very un-Canadian. Canadians, Zussman said, like stability and are accustomed to predictability in their political life, and hardly know what to make of the chaos that has engulfed the political process. From the circus-like atmosphere in Question Period to the razor's edge survival of the government, this sort of thing just doesn't happen here. The desire for predictability, Zussman told us, could be what has held Canadians back from the brink on several occasions, and is what makes it possible to reconcile the seeming contradiction several weeks ago of plummeting numbers for the Liberals but no desire to go to the polls. There has been an air of relief on all sides since the failed attempt two weeks ago to bring the government down, and the Government and Opposition have gone back to work to bring the current session of Parliament to a modestly successful conclusion, while shaping the environment for the electoral battle to come.

Winter or Spring Elections

3. (C) According to Political Analyst Bruce Campbell, the question since PM Martin committed to calling an election 30 days after Justice Gomery issued his report, is not if but when the election will be held. He believes the report will be issued at the end of the year which would put the election in late February or early March. But Liberal MP Derek Lee from Toronto told us that an election in the dead of winter is a non-starter in Canada -- "people can literally die during a winter election," he said. He foresees a scenario in which the government and opposition agree to interpret the PM's promise liberally, and allow for the election to occur fully into the spring. Liberal MP Francoise Boivin of Quebec also believes something will happen to allow for a later election -- the release of the report could be stretched out a few more weeks for example.

4. (C) But in talking to Conservative Deputy House Leader Jason Kenney, it is quite clear that the Conservatives want an election just as soon as they can bring it on. Kenney scoffed at the idea of pushing an election into the spring just for the weather, and indicated that if the Conservatives had the chance they would not hold back from bringing the government down this month (although he appeared resigned to the fact that they would not have that opportunity). Kenney expressed intense frustration that the Liberals were able to stave off an election last month but said the Conservatives have not backed down. Commentator John Ivison said many conservatives believe that "volatile public opinion polls have underestimated Conservative support. They cite the Labrador byelection where their share of the vote doubled in a riding that has never been kind to the Tories." The Conservatives remain locked and loaded.

5. (C) Derek Lee said the Liberals are not taking anything for granted, and have thought through the possible scenarios for a no-confidence vote this month. One is an ambush, in which the Conservatives and Bloc gang up on the government on a day when it isn't expecting it and push through a no-confidence motion when there are Liberal absences. A second is if the NDP part of the budget gets stalled and the NDP decides the government is not pushing hard enough for the budget and withdraws its support. And a third is if the NDP feels it is getting too close to the Liberals and is losing support in the process, in which case it might decide it needs to withdraw its support to survive. Lee doesn't think these scenarios are likely, the Liberals are on full alert for the ambush scenario and are fully cognizant of the need to maintain NDP support.

What Is Ahead?

16. (C) So assuming we are headed for a spring election, how is it shaping up? Zussman says that the backdrop for the election generally favors the Liberals. The economy is doing well and the Parliament will be able to sufficient legislation so that the last term will not be a complete wash. Money and programs are flowing, and relations with the U.S. and the world are "good enough." Gomery is grinding on but there don't appear to be any more bombshells, and the scandal appears to have its limits. There is growing fatigue with sponsorship outside of Quebec.

Liberal Strategy

17. (C) Against this backdrop the Liberal strategy for the election is fourfold. First, shore up NDP support by pushing through the budget accord and trying to hold out something else for the future. This is tricky, as Jack Layton said very clearly up front that the NDP was supporting a budget, not a government. The NDP MP from Winnipeg was even more cutthroat recently, saying "Our compact with the Liberals is very specific and finite -- until the budget gets Royal Assent. After that, I for one welcome the opportunity to vote these guys out of office and I think the chance will come sooner rather than later." The NDP must maintain a distinguishing distance between it and the Liberals, or it will be swallowed as it was after the 1988 election in Ontario, when it signed an accord with the Liberals, only to see the Grits win by running on the record that their accord facilitated.

18. (C) Second, the Liberals need to continue to work the provinces, especially Ontario, with new programs and promises. We can expect more equalization talks with Premier McGuinty and more programs for communities and infrastructure. Third, they must highlight the Conservatives' "hidden social agenda" and add to it the specter of strengthened separatism because of the Conservative-Bloc alliance. And fourth, they need to take some of the blame for Gomery, while showing that they remain best positioned to clean the mess up. Boivin and Lee both say that there is no doubt sponsorship will hurt the Liberals, but neither saw it as crippling. Boivin said she won her riding in Hull, Quebec, by a very narrow margin and knows that there is rapt attention being paid to the Gomery inquiry in Quebec which will hurt her. But she also believes that there is limited support for separatism, and when voters make their decision they will not just be voting against corruption, but for something, and when they look honestly at what the parties have achieved, the Liberals may just look good enough.

Conservatives Seek a Theme

19. (C) The Conservatives to date have been sticking to the corruption theme, evidenced by their intense focus this past week on the Grewal affair in Question Period. There is no doubt that this theme has some resonance with the Canadian electorate and that the sponsorship scandal has damaged the Liberal Party brand. The question is whether the damage transfers into support for the Conservatives, and whether it will last until the voters finally go to the polls. Jason Kenney believes the corruption issue will remain central to the Conservative platform, but also thinks the party needs to develop a positive theme that will attract voters. He is uncertain what that issue, or basket of issues will be. He mentioned 'choice in child care' as one thing that the party will promote (indeed it has been doing so in Question Period). He also said the positive side of corruption -- good governance and strong oversight -- will be highlighted. He believes health care would definitely not be a Conservative issue, because the party position is so tainted that it invariably would be painted into a "two-tier" corner. And while he mentioned economic and fiscal responsibility, he was not sure how that particular issue could be developed, since they would be running against the architect of Canada's budget turnaround.

Harper a Growing Liability

10. (C) In short, the Conservatives have not yet found their footing. This is made worse by the problem of leadership. The Conservatives are having a very difficult time shaking the negative image that many Canadians, especially in Ontario and Quebec, have of Stephen Harper, who Campbell believes "engendered a fear factor in the 2004 election which the Liberals were able to effectively exploit through negative advertising in the closing days of the campaign." Campbell believes frankly that as long as Harper is at the helm, the Conservatives can't win. There are now open calls for his resignation, with one prominent commentator saying that it is

time for Harper to recognize that he has taken the party as far he can and pass off to someone else. Lee says that some of his conservative colleagues have also expressed frustration with Harper's continued leadership. But no one we have queried sees any likelihood of Harper stepping down; most believe the party must go through the next election before it will have the opportunity to pick a new leader.

11. (C) To his credit, Harper faces the difficult task of being socially and fiscally conservative enough to keep the party's western roots happy, while appearing moderate enough to appeal to urban Ontario and Quebec. The Stronach defection brought this inherent Conservative schizophrenia out in the open. While there were apparently personal conflicts that played out and Harper clearly made some mistakes, it was clear at the Conservative Convention that Stronach was not comfortable in the party to begin with. Lee believes it nonetheless sent a chilling message to women who might have voted Conservative, to see a progressive, moderate woman leave the party because she couldn't find a place there. The crossing no doubt will hurt the Conservatives, although the damage was mitigated somewhat by the flighty way Stronach made her move.

The Kinder, Gentler Bloc

12. (C) The Bloc Quebecois meanwhile is just biding its time. Gilles Duceppe continues to get out as much as possible to soften the image of the Bloc from wild-eyed separatists to the friendly Quebecers next door. But he makes no pretense to any other platform than the full separation of Quebec from Canada. He will continue to ride the discontent over Gomery and milk the scandal for whatever it is worth.

13. (C) Comment: The Liberals appear to have come out of the recent scrum on top, or at least holding their own. They are banking on a kind of scandal fatigue setting in, which indeed appears to be happening. Meanwhile they will continue to deliver on the kinds of things that are genuinely popular with the electorate. But assuming nothing unexpected happens, there are still ten months before the election, a very long time in the current climate.

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